

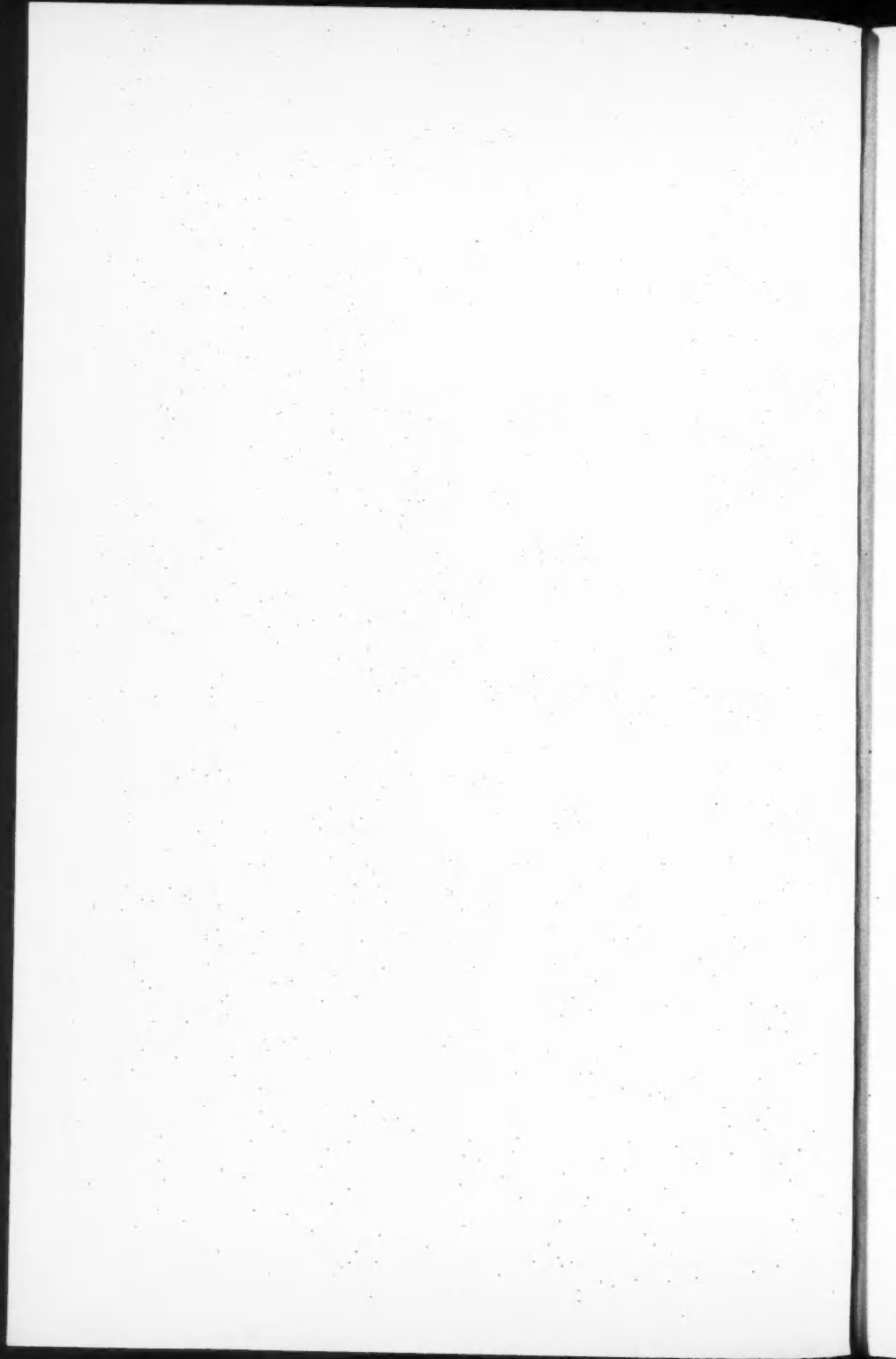
INDONESIAN CRISIS

by

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INDONESIAN CRISIS

CIVIL WAR threatens the island republic of Indonesia where the central government has reacted to establishment of a revolutionary regime by bombing key insurgent transportation and communication points. The rebels, who proclaimed a republic in Central Sumatra on Feb. 15, are asking more local autonomy, a new cabinet responsible to the parliament, clean-up of corruption in the government, ousting of Communist sympathizers, and anti-inflationary economic measures. President Sukarno, who has rejected all these demands in the past, insists on complete surrender by the rebels in advance of negotiations. The head of the rebel government, discounting Sukarno's ability to mount a successful attack without help from abroad, said on Mar. 3 that the rebels would ask the United States for arms if the Russians helped the central government.

The insurrection, climaxing more than a year of bitter dissension among the Indonesians, was touched off by a government-ordered anti-Dutch strike on Dec. 2. The strike inspired members of strongly nationalist unions to take possession of numerous Dutch businesses on the island of Java, and the government followed up that action by formally taking over the seized properties. In addition, it nationalized the Dutch-owned shipping company which carried on 70 per cent of Indonesia's inter-island transportation. The anti-Dutch campaign was intended to force the former colonial rulers to turn over Netherlands New Guinea to the island republic. However, the rebels believe that the precipitate nationalization of Dutch enterprises, and the ensuing expulsion of the Dutch nationals who knew how to operate them, formed part of a Communist-inspired plot to undermine the economic stability of the country.

The revolutionary government is headed by Sjafruddin Prawiranegara, former president of the Bank of Indonesia, who fled to Sumatra in mid-December protesting that

wanton violence against Dutch interests might turn Indonesia into a Soviet satellite state. The rebel regime has claimed complete sovereignty over Indonesia; ordered diplomatic representatives to report to it; and demanded control over Indonesian assets abroad. So far, however, only two groups, in North and Central Celebes and at the northern tip of Sumatra, have recognized the revolutionary government. South Sumatra has taken a half-way position; while not recognizing the new regime, all of its political parties except the Communist have joined to demand resignation of Premier Djuanda's cabinet at Jakarta, seat of the central government.

Mohammed Hatta, a leading figure in Indonesia's struggle for independence from the Netherlands, may hold the key to peaceful solution of the internal conflict. Second in influence only to Sukarno, Hatta resigned as Vice President on Dec. 1, 1956, in protest against the President's efforts to mold an authoritarian and highly centralized government. Hatta, while condemning last December's disorderly attack on Dutch interests, rejected a bid to the premiership of the rebel regime.

CAPACITY OF INDONESIAN LEADERS FOR COMPROMISE

"Indonesian leaders have always shown a remarkable ability in avoiding head-on collisions of hostile political forces," according to Prof. Justus M. Van Der Kroef of the University of Bridgeport.¹ Their "unerring sense of finesse and compromise" may prove to be their greatest asset in a situation which by western standards has already reached a dangerous stage. If the Indonesian capacity for compromise does not lead to early settlement, continued violence between the Communist-supported central government on the island of Java and the strongly anti-Communist insurgents on the outer islands might draw third parties into the struggle. But if the rebels surrender unconditionally, the influence of Javanese Communists who have given President Sukarno his strongest support may prevent an equitable settlement of rebel grievances.

Secretary of State Dulles expressed the official United States view of events in Indonesia at a press conference on Feb. 11. He observed that "the working out of these problems is primarily an internal problem for the Indonesian

¹ Justus M. Van Der Kroef, "Place of the Army in Indonesian Politics," *Eastern World*, January 1967, p. 18.

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people and their government," but said that "We would like to see in Indonesia a government which is constitutional and which reflects the real interest and desires of the people of Indonesia." Dulles's suggestion that Sukarno's government "apparently does not satisfy large segments of the population" brought immediate protest from the Jakarta government, which so far has resented any apparent foreign interest in the revolt.

INDONESIA'S STRATEGIC IMPORTANCE TO FREE WORLD

American interest in the Indonesian crisis is explained by the geographic, economic, and political importance of the nation. A population of more than 80 million² makes Indonesia the sixth most populous country in the world and the largest of all Moslem states. Including Sumatra on the west, most of Borneo (called Kalimantan by the Indonesians) and Celebes (called Sulawesi) on the north, the Moluccas on the east, and Java and the lesser Sundas on the south, Indonesia occupies a vital strategic area. The group of 3,000 islands stretches nearly 3,000 miles from east to west and more than 1,000 miles from north to south at the broadest point. Australia, the Philippines, and Singapore are near neighbors. All direct sea lanes connecting the Pacific Ocean and the South China Sea with the Indian Ocean run through waters now claimed by Indonesia.³

Abundant natural resources put Indonesia in the potential position of third richest country on earth (after the United States and the Soviet Union). Indonesia has produced about 42 per cent of the world's natural rubber in recent years. Its petroleum reserves are rated the largest in the Far East and make up almost two per cent of world reserves. Indonesia ranks second in world production of tin. Other mineral resources include bauxite, coal, iron, nickel, manganese, copper, gold, diamonds, sulfur, salt, and iodine. Among products of the country's fertile soil are rice, tobacco, copra, coffee, tea, cacao, sugar, pepper, and spices.

Indonesia has played an active part in the so-called

² The last fairly accurate census was taken in 1930, when about 60 million Indonesians were counted. Current estimates run from 80 million to 85 million.

³ The Indonesian Council of Ministers announced, Dec. 13, 1957, that all waters around, between, and connecting islands of the Indonesian archipelago were to be considered territorial waters. The United States, Britain, and the Netherlands entered objections to so sweeping a claim.

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Afro-Asian bloc of nations. Its foreign policy, which has avoided alignment in the cold war and stressed preservation of peace, is usually described as "active and independent." Host to the conference of African and Asian nations held at Bandung in 1955, Indonesia was recognized as second only to India in its influence on Asia's uncommitted countries.

REVOLTS AGAINST JAVANESE DOMINATION OF ISLANDS

Although establishment of a revolutionary regime at Bukittinggi (Central Sumatra) in February challenged the very existence of the Jakarta government, most of Indonesia had already repudiated its authority. Hatta's withdrawal from the government more than a year ago touched off revolts which led Lieut. Col. Achmad Hussein, regional army commander, to claim full autonomy for Central Sumatra on Dec. 20, 1956. In North Sumatra Col. Maludin Simbolon announced two days later that his command also had thrown off Jakarta control. Lieut. Col. Ventje Simual established a semi-autonomous regime on Mar. 2, 1957, in the East Indonesian islands of Celebes, Bali, and the lesser Sundas. The South Sumatran assembly voted Mar. 9, 1957, to transfer control there from the appointed governor to the local military commander, Lieut. Col. Barlian.

The Indonesian portion of Borneo came under the authority of Lieut. Col. Hasan Basri and a revolutionary council on Mar. 12, 1957. In other parts of Sumatra, Celebes, and even in parts of Java, armed Moslem extremists renewed efforts to set up a Moslem theocracy. In the South Moluccas, rebellion which had been endemic since 1950 broke out anew.

The central government carried out one counter-coup at the end of 1956 when Col. Simbolon was ousted in North Sumatra, but it has not been able to re-establish full authority over any other extensive area. After a cabinet crisis in March 1957, President Sukarno declared a "state of war and siege" which is still in effect. Several conferences between the defiant military leaders and representatives of the central government, and a highly publicized meeting between Hatta and Sukarno in September 1957, failed to bring lasting agreement.

Until the revolutionary government was set up in February 1958, a paradoxical situation existed. The rebels

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constantly expressed their desire for a united Indonesia and voiced their loyalty to President Sukarno, but they refused to carry out Sukarno's orders or to pay taxes to Jakarta. Although the soldiers were accused of what amounted to treason, Jakarta continued to pay their wages.

The chief grievance of the rebellious areas originally was that the more numerous Javanese were treating them, in Col. Simbolon's words, "like country cousins."⁴ Rebel Premier Sjafruddin put the case more strongly on Feb. 15 by accusing certain leaders on Java of "colonialism" toward the other islands. The outer islands, especially Sumatra, Borneo, and Celebes, bring in about three-fourths of Indonesia's foreign exchange credits, but have received the equivalent of barely one-fourth of that income from the central government for their own economic development.

Java produces less than one-fifth of the country's exports, but the 52 million Javanese are the beneficiaries of more than 70 per cent of the export income. The economic dependence of populous Java has aroused wide resentment in the rich but sparsely populated outer islands. A Sumatran colonel has been quoted as saying: "Java is like an overloaded ship sinking under its own weight. We don't propose to go down with it."⁵

To counter Javanese centralism, the rebels have frozen government funds in the territory they control, tried to prevent foreign companies from paying taxes to Jakarta, and deliberately by-passed legal restrictions on foreign trade. Illicit barter, by which foreign exchange reserves and tariff revenues are kept out of Javanese reach, has flourished despite Sukarno's efforts to suppress it. The rebel leaders are demanding creation of a bicameral legislature, to balance Javanese numerical superiority with provincial representation, and a fixed percentage division of Indonesia's income.

GROWING STRENGTH OF REDS; ATTITUDE OF SUKARNO

Since last summer's local elections in Java, Communism has become an increasingly important factor in the inter-islands dispute. Although official returns have not yet been published, it is known that the *Partai Komunis Indonesia*

⁴ Gordon Walker, "Indonesia: Growing Opposition to Sukarno's 'Gotong Rojong'," *Reporter*, June 13, 1957, p. 30.

⁵ Keyes Beech, "Struggle for Power Under the Pines," *Saturday Evening Post*, Oct. 12, 1957, p. 104.

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won about 1.5 million more Javanese votes than it had received in the general election of 1955, while every other party suffered losses.

The outer islands, where local elections have not yet been held, support the *Masjumi* party, a strongly anti-Communist Moslem group. As the Communists gain additional followers in Java and threaten to sweep parliament in the 1959 general election, the outer islands have become more insistent in their demands for local autonomy.

Anti-Communist forces blame President Sukarno for the current upsurge in Communist strength. Communism was thoroughly discredited in 1948 when an abortive revolt was quickly suppressed. But after the Communists changed their tactics in 1952⁶ and became vociferous supporters of the popular Sukarno, he was the first to extend the hand of reconciliation. Sukarno's tolerance helped the party to win fourth place in the 1955 elections.

The dramatic change in the President's views came after a world tour in 1956. Sukarno was much impressed by the order and obedience to authority in Communist countries, especially Red China. He suggested on his return in October that "all political parties should be buried." Communists and other party leaders were urged to participate in the government as individuals. "There must be a guided democracy in this country, a democracy with a leadership," he said on Nov. 26, 1956.

When the Moslem parties rejected Sukarno's concept of "guided democracy," thus making it impossible to obtain a responsible cabinet, Sukarno seized the initiative.⁷ Declaring on Feb. 21, 1957, that Western democracy had failed for Indonesia, he outlined his new design for national unity. A "gotong rojong," or mutual cooperation cabinet, was to be organized and it would not be responsible to the parliament. As finally constituted, the new cabinet included three Communist sympathizers. Sukarno appointed also a 42-member National Council to "give solicited and unsolicited advice" on national needs. Announcement of these changes was timed to coincide with the visit in May 1957 of Soviet Marshal Voroshilov.

⁶ U.S. Information Agency, *What Are the Real Aims of Indonesia's Communists?* (mimeo., Part 2, December 1957), p. 3.

⁷ Technically, Sukarno is head of state, like the French president, not head of government, like the President of the United States.

Refusing to collaborate with the Communists in any way, Hatta and the rebel leaders have condemned Sukarno's "guided-democracy" theory and his procedures. The result has been an increasing polarization of forces in Indonesia. Widespread disapproval from other quarters has forced Sukarno to rely more and more upon the Communists in Java. So far they have supported his every move, including use of force against the insurgent regime. But the rebellious Sumatrans believe, along with many Western observers, that Sukarno, who started by using Communist support for nationalist ends, may finish by becoming himself a pawn of international Communism at great cost to Indonesia and the free world.

Role of Dutch in Indonesian History

INDONESIA'S history provides a clue to present dissensions. What unity does exist among the islands came from long association with the Dutch and later struggles against them. When Dutch ships first reached the Indies in 1596, there were few ties among the inhabitants of the scattered islands. The Netherlands East India Company was established in 1602 to monopolize the profitable world spice and pepper trade. The Dutch government took over in 1800, and in 1830 it adopted a "culture system" under which the islanders were to devote a specific part of their land and labor to cultivation of export crops. The system rapidly deteriorated into virtual peonage, but it did yield profits.

As private enterprise began to replace state exploitation, and as the Netherlands government became more representative, Dutch liberals sponsored a new approach. In his speech before the throne in 1901, Prime Minister Kuyper laid down the principle that "The Netherlands has a moral duty to fulfill with respect to the people of these regions." Funds were released for improvement of economic conditions; credit was made more readily available to peasants; and a foundation for popular education was laid. Colonial governors nevertheless continued to place the interests of Dutch capital above those of native Indonesians, and the latter benefited little from the period of prosperity that ensued. During the world depression of the 1930s economic exploitation of the Indonesians caused widespread suffering.

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Where the Dutch regime failed most conspicuously was in preparing the people for self-government through education and experience in public administration. Unlike the British in their Asian colonies and American authorities in the Philippines, the Dutch made no effort to remodel Indonesian society along Western lines.⁸ The native literacy rate in 1940 was only 6.4 per cent. Statistics published by the Netherlands Indies government indicated that in that year only 7,790 Indonesians finished public primary schools, 1,130 completed the equivalent of the ninth grade, and 240 finished high school.⁹ Barely 1,100 students were enrolled in colleges or universities; only about 40 Indonesians in 1940 received graduate degrees, mainly in law and medicine, from island professional schools.

Even the small number of wealthy Indonesians who had been educated in Holland found little opportunity to put their training to use. In the civil service Indonesians held 99 per cent of the lower jobs, only 7 per cent of the higher posts. Europeans predominated in the better positions.¹⁰

Small steps toward representative government in the islands were taken in 1918. The Netherlands government granted a constitution and established a People's Council, one-half of whose members were appointed by the sovereign. High property qualifications for voting made exercise of that right impossible for most Indonesians. Even in 1927, when the powers of the People's Council were enlarged, almost one-half of its elected members were non-Indonesian. A few provincial councils were set up, but almost all local officials continued to be appointed by the governor-general.

GROWTH OF THE INDONESIAN NATIONALIST MOVEMENT

Indonesian nationalism, born among the native intelligentsia in the larger towns, began to be an important factor soon after World War I. Moderate concessions by the Dutch, which particularly favored Europeans or those of European descent, spurred Indonesian patriots to greater activity. They attacked the whole Netherlands policy of indirect rule through a local nobility which was said to

⁸ George Kahin maintains that Dutch rule almost eliminated the Indonesian middle class and reduced the peasants to virtual serfdom.—George Kahin, *Nationalism and Revolution in Indonesia* (1953), pp. 1-2.

⁹ As quoted in Kahin, *op. cit.*, p. 31.

¹⁰ Chinese held about 2.5 per cent of the intermediate jobs, and less than one per cent of the lower or higher posts, according to a survey made in 1939. Amry Vandembosch, "Indonesia," Lennox Mills, ed., *The New World of Southeast Asia* (1949), pp. 90-91.

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make collaborators of the leading figures and prevent the spread of progressive ideas.

Hollanders admitted in theory that the islands would have to be granted autonomy at some time in the future, but in practice Indonesian groups which aimed for that goal were denounced as Communist and severely repressed. Sukarno, who founded the Nationalist Party in 1927, Sutan Sjahrir, who became the second Indonesian prime minister, Hatta, and many other nationalists were confined in a concentration camp on New Guinea during the 1930s—a fact which contributes to the Indonesian view of New Guinea as the stronghold of Dutch imperialism.

The Japanese occupation of 1942-45 greatly strengthened Indonesian nationalism. Dutch ground forces surrendered to the Japanese after a half-hearted resistance which degraded them in the eyes of Indonesians. The Japanese, at first greeted as liberators, soon alienated the islanders. They resented overbearing Japanese manners and the obvious siphoning off of Indonesian resources for the benefit of Japanese imperialism. Nationalist leaders formulated a dual strategy. Sukarno and Hatta would exert pressure on the Japanese through legal channels; Sjahrir and others would organize an underground resistance movement.

As the Japanese were harder pressed by the Allies, they yielded more and more power to the native inhabitants. Several Indonesians were appointed heads or subheads of political divisions on Java. Committees for "the Preparation of Independence" were set up on Java and Sumatra. In the summer of 1945 Japan promised eventual self-government. Sukarno, Hatta, and other nationalist leaders then took matters into their own hands and in August 1945 proclaimed the birth of the Republic of Indonesia. British troops landed at Jakarta six weeks later. Netherlands forces followed, and the struggle for independence began in earnest.

INDONESIAN FIGHT FOR INDEPENDENCE AFTER THE WAR

Queen Wilhelmina had announced in a radio address on Dec. 6, 1942, that an imperial conference to be held shortly after the close of the war would work toward "a commonwealth in which the Netherlands, Indonesia, Surinam, and Curacao will participate with complete self-reliance and freedom of conduct for each part regarding its internal

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affairs, but with readiness to render mutual assistance."¹¹ But the Dutch were not prepared to recognize the government on Java, which they regarded as collaborationist, as the legitimate spokesman for other islands. Throughout four years of fighting and negotiating, this question of the relationship between Java and the other islands remained a chief point at issue.

When the struggle was a year old and the Dutch had regained control of all the islands except Java, Madura, and Sumatra, a compromise was reached in the Linggadjadi Agreement of Nov. 15, 1946. For the first time, the Netherlands recognized the de facto authority of the Republic of Indonesia, although only over the three islands controlled by the Jakarta government. The republic renounced its claim to Borneo and the eastern islands, which were to become co-equal parts in a United States of Indonesia. Any Indies territory was to be allowed to remain outside the federal union if it so desired.

Neither side was willing to cooperate in carrying through the Linggadjadi Agreement. There were still sporadic bursts of violence between Dutch troopers and Indonesian guerrillas. The government of the republic accused the Netherlands of setting up puppet regimes on the outer islands and fostering separatism even on Java and Sumatra. The Dutch complained of lawlessness, which the native government appeared incapable of halting, and of resulting economic instability. Impatient with the deteriorating situation, the Netherlands undertook an all-out effort in July 1947 to impose settlement by force.

World opinion was aroused by what the Netherlands called a "police action." The United Nations sent a Committee of Good Offices to Indonesia in October to negotiate a final agreement.¹² The Renville Agreement, signed Jan. 17, 1948, on the U.S. Navy transport *Renville*, "represented a clear-cut victory for the Dutch" and "reflected the military advantage gained by them."¹³ The Republic of Indonesia was assigned a less important place in the projected union; the Netherlands did not renounce its policy of fostering separatist movements; and even in Java, Madura, and Sumatra a plebiscite was scheduled to determine

¹¹ See "Colonies After the War," *E.R.R.*, 1948 Vol. I, p. 297.

¹² Australia, Belgium, and the United States were represented on the committee.

¹³ William Henderson, *Pacific Settlement of Disputes: The Indonesian Question, 1946-1949* (1954), p. 27.

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whether the people wished to continue under one government.

This agreement, like its predecessor, broke down. Neither side could agree on organization of the plebiscite. The republic insisted on full authority to cope with activities of Dutch separatists. Regarding this demand as a violation of its own sovereignty, the Netherlands on Dec. 19, 1948, unleashed a second all-out "police action."

The United Nations Security Council called on the parties to cease hostilities forthwith and to release all political prisoners. Under heavy pressure from the United States, the Netherlands government agreed to a round-table conference at The Hague in the autumn of 1949. There the Dutch government unconditionally transferred complete sovereignty over Indonesia to the Republic of the United States of Indonesia, a democratic federal union which was to include the original republic and 15 other components. A loose union under the Crown, modeled on the British Commonwealth, was to link the Netherlands and the R.U.S.I.

Native Indonesians associated the idea of a federal state with the Dutch policy of divide and rule, which had almost destroyed the republic. Federalism and continued union with the Netherlands seemed relics of Dutch imperialism. A movement for creation of a unitary state, promoted by anger over allegedly Dutch-inspired revolts in Ambonia and the Moluccas, sprang up early in 1950. The federal structure of the R.U.S.I. was repudiated in August of that year. With widespread popular support, a unitary republic was established in its place. Four years later the union with the Netherlands was dissolved by mutual consent. What resulted was a completely independent, highly centralized state. Now, after four years more, the provinces are demanding local autonomy in a federal system.

LONG CONTROVERSY OVER NETHERLANDS NEW GUINEA

Netherlands New Guinea, called West Irian by the Indonesians, was the only part of the Netherlands East Indies not transferred to Indonesia in 1949. Dutch reluctance to surrender everything and Indonesian impatience to be free resulted in an unsatisfactory compromise: the Charter of Transfer of Sovereignty stipulated that the status quo was to be maintained for the time being, but that within a year the future position of Netherlands New Guinea

would be determined by negotiations between Indonesia and the Netherlands.

Negotiations undertaken in 1950, 1951, 1952, and 1956 all failed. Principle appeared to outweigh practical considerations for both sides. Despite the pleas of some Dutch liberals and most of the Dutch in Indonesia, the Netherlands insisted on maintaining control of the approximately 161,000 square miles of jungle and 700,000 uncivilized Papuans in western New Guinea.¹⁴

The Indonesian government claims the area as legal successor to the Netherlands East Indies government. Sukarno's campaign for West Irian was described by most Westerners as a red herring to distract attention from domestic failures, but Indonesian leaders, including Hatta and Sjafruddin, are virtually unanimous in their determination to win the territory. Although Indonesian seizure of Dutch properties last December in protest at the Dutch stand on New Guinea has been driving the Dutch from Indonesia proper, to date it has not altered Holland's determination to hang on to New Guinea.¹⁵

Internal Ills of Independent Indonesia

INDEPENDENCE has not cured the social, political, and economic ills of the Indonesian islands. "Unity through diversity" is the nation's motto, but diversity, dissension, and disintegration of authority have always been far more evident than unity. Among the first of Southeast Asian countries to win full independence, Indonesia wanted to set an example for Burma and the whole Malay peninsula. But just as Burma and Malaya seem to be approaching stability, Indonesia faces political and economic chaos.

The obvious and most important cause of Indonesian instability is geography; its islands are scattered over a sea area larger than the land area of the United States.

¹⁴ The Dutch have spent about \$17 million a year on the territory since 1950 with little hope of return. Oil deposits on the west coast have so far not come up to expectations.

¹⁵ Reports from the Netherlands indicate that the influx into Holland of refugees from the Far East—technically Dutch citizens though many are of Asian or mixed blood—is putting heavy burdens on an already strained economy and conceivably may bring about revision of Dutch policy.

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In addition, Indonesia contains at least 44 distinct ethnic groups. Ten major languages and more than 200 dialects are spoken.

Chinese form the largest distinct minority in the islands. Two and one-half million Chinese, mostly born in Indonesia, play an important part in the country's commerce. But traditional Chinese separatism and recent Indonesian tendencies to discriminate against alien groups have combined to turn the loyalties of overseas Chinese toward Red China. About 80,000 Eurasians (persons of mixed European and Asian parentage) live in Indonesia, frequently with divided loyalties. The estimated Arab minority of 85,000 and the Indian minority of around 30,000 are by comparison well integrated in Indonesian society. There are also approximately 30,000 Europeans, mainly Dutch, but their number is rapidly diminishing.

Religion also creates diversity. Ninety per cent of Indonesians are Moslem. Hinduism flourishes in Bali and parts of Java. Several million Christians, both Catholic and Protestant, are scattered over the islands, crossing ethnic lines.

Indonesians have tried to create stronger national ties. *Bahasa Indonesia*, a Malay dialect spoken on Java, was adopted as the official language during the Japanese occupation. The Indonesian republic has placed much emphasis on education. Recent statistics show that between 1940 and 1956 the number of pupils in primary schools rose by 242 per cent, in junior secondary schools by 1,847 per cent, in senior secondary schools by 1,477 per cent, and in universities and academies by 1,280 per cent.¹⁶ The government asserts that the literacy rate among Indonesians above age 13 has reached nearly 70 per cent, but unofficial estimates place the actual rate at less than half that figure.

POLITICAL DISSENSION AND SPREAD OF CORRUPTION

Diversity and the resulting instability are reflected throughout the Indonesian political scene. Seventeen governments have held office during the last eleven years. In the first general election, in 1955, 172 national, regional, and local parties offered candidates; 28 parties won representation.

Four main parties emerged in 1955. The P.N.I., or

¹⁶ R. Muerdowo, "Higher Education in Indonesia," *Eastern World*, June 1957, p. 25.

Nationalist Party of Indonesia, won 8.4 million votes; the *Masjumi*, a reformist Moslem party, won 7.9 million; *Nahdat'ul Ulama*, orthodox Moslem party, won 6.9 million; and the P.K.I., or Communist Party of Indonesia, won 6.2 million. Western observers were disappointed by the poor showing (750,000 votes) of Sjahrir's Socialist Party, to which most of the well-educated, experienced, and internationally oriented Indonesians belonged; but the party, which had played an important role in the struggle for independence, lacked mass support. Candidates of the P.N.I., N.U., and P.K.I. all ran on more or less jingoistic, anti-Western platforms.

Conflicts between the liberal *Masjumi* and the conservative N.U. have sharply divided the Moslem community. Despite a common hostility to Communism, cooperation between the two is rare. Moreover, within each party, local and individual divisions run deep. "The personal influence of the leaders," one observer points out, "is still to a large degree decisive for the following of a political party in Indonesia."¹⁷

Communist successes in the 1957 Javanese elections have been interpreted in the West as another sign of Indonesia's political immaturity. President Sukarno's tolerance of the Reds, depressed economic conditions, and flexible, opportunistic campaigning contributed to the large Communist vote. But "more than any other organization," a leading expert on Indonesia has pointed out, "the P.K.I. has successfully capitalized on the accelerating processes of social disorganization, structural change, and value transformation evident in contemporary Indonesia."¹⁸ Working at the community level in the oldest traditions of Indonesian paternalism, Communist leaders have won grass-roots support among the impoverished peasants and dislocated urban proletariat.

Corruption has been another source of internal conflict. Almost a million civil servants and politicians depend on the state for a living. Because the government cannot pay adequate salaries, local officials turn to embezzlement and frequently dissipate already limited public resources.

Vice President Hatta and army leaders have always been

¹⁷ B. H. M. Vlekke, *Indonesia in 1956* (1957), pp. 49-52.

¹⁸ Justus M. Van Der Kroef, "Indonesia's First National Elections; II. Sociological Analysis," *American Journal of Economics and Sociology*, July 1957, p. 411.

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the foremost critics of such abuses. The military commandant of West Java attempted in the summer of 1956 to arrest Indonesia's foreign affairs minister for foreign exchange manipulations. At the same time Hatta warned that unless "unbridled corruption" was checked, Indonesia would suffer the same fate as China under the Kuomintang. Rebel Premier Sjafruddin accused President Sukarno, Feb. 15, of bribing at least four newspapers to defame his enemies.

Hatta, the rebels, and many Western critics agree that there is no easy way to solve these problems through "guided democracy." Until realistic measures are taken to straighten out the government and bolster the economy, Indonesia is likely to be dissatisfied with any form of government. Van Der Kroef points out that "It is the margin between rosy expectations and bleak reality in which democracy is put to the test in Indonesia, the margin also of its survival."¹⁹

NEED OF INCREASED PRODUCTION AND FISCAL REFORM

Revolt in the outer islands has sharply spotlighted Indonesia's economic dilemma. Although the rebels demand a larger share of the common funds, which they claim have been monopolized by Java, Indonesian economists believe that the goal must be to increase over-all revenues so that everyone can have more. The real value of per capita income in Indonesia today, very roughly estimated at \$40 a year, is lower than in 1939, probably lower than in 1929.²⁰ Output of foodstuffs like coffee, cocoa, sugar, and tea has not yet reached prewar levels. Rubber, tin, and rice production are currently falling. An Australian expert described the situation in the following terms:

The acute economic problems of Indonesia derive ultimately from a chronic tendency to consume more than it produces. . . . The country has been living increasingly on its capital. The Government has proved itself ineffective either in reducing consumption or in raising production; those few administrations which have made serious and determined efforts to bring the two into line have been maneuvered out of office before their policies could become fully effective.²¹

¹⁹ Justus M. Van Der Kroef, "Trials of Indonesian Democracy," *Review of Politics*, January 1958, p. 70.

²⁰ Benjamin Higgins, "Indonesian Development Plans and Policies," *Pacific Affairs*, June 1956, p. 110. See also U.S. Department of Commerce, *Investment in Indonesia* (1956), p. 87.

²¹ D. W. Fryer, "Economic Aspects of Indonesian Disunity," *Pacific Affairs*, September 1957, p. 196.

The Korean war brought a brief boom in Indonesia's main export—rubber—but a serious slump followed. Since 1952, by strictly regulating import licenses and by varying exchange rates, Indonesia has maintained a slightly favorable balance of trade. The balance of payments, however, which includes shipping charges, insurance, and return on foreign investments in the country, has been unfavorable. From January 1952 to January 1957, Indonesia lost foreign exchange reserves at a faster rate than any other nation in the world.²² The rupiah, officially valued at 8.7c, sells on the black market for about 2c.

Heavy deficits in the government budget have accentuated the inflationary tendencies. Finance Minister Sutikno Slamet pointed out in May 1957 that budget deficits aggregated more than \$1 billion between 1952 and 1956. He estimated that several hundred million dollars of revenue were kept from the treasury in the same period by illegal barter transactions in the outer islands. Smuggling had increased sharply, he noted, since the December 1956 revolts. The deficit for 1957 was expected to be almost \$320 million. Unofficial deficit estimates for 1958 go over the \$1 billion mark.

REASONS FOR ECONOMIC STAGNATION IN THE ISLANDS

Even if the present rebellion was not depriving the central government of two-thirds of its export revenue, Indonesia would still suffer from the dilemma that plagues every other undeveloped country. It depends for national income on the export of raw materials. Because raw material prices are notoriously unstable, and are dropping now in a world slump, Indonesia has felt the pinch. The only long-term answer is industrialization. But Indonesia, with all its potential riches, is falling behind the rest of Southeast Asia in development of local industry.

Four reasons are usually given for the economic stagnation. Hjalmar Schacht, who surveyed the country's economy in October 1951, concluded at that time: "This country has a future which can lead it steadily upward, if the people return to industriousness, discipline, and order. The fact that this return has not yet taken place—not financial or economic problems—forms the crisis with which Indo-

²² The Bank of Indonesia reported at the end of January 1958 that gold and convertible foreign exchange reserves outstanding amounted to only 11 per cent of currency liabilities. Although the legal minimum is 20 per cent, reserves have been below this figure since January 1957.

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nesia is faced." Many Indonesians believed that independence would bring freedom from work. A seven-hour day, an increased number of holidays, and new social services were established. The Standard-Vacuum Oil Co. has estimated that productivity is 40 per cent lower than before the war.²³

A second obstacle to industrial expansion is lack of trained personnel. Indonesia has only about 250 engineers and very few technicians, professional men, trained civil servants, entrepreneurs, or managers. Educated Indonesians, moreover, look for prestige jobs in the government and are reluctant to undertake development projects in remote areas.

A third handicap is the inevitable scarcity of capital in a country whose low standard of living precludes private saving and investment. "What Indonesia needs in order to launch and maintain a process of steady economic growth," Benjamin Higgins of the Massachusetts Institute of Technology has pointed out, "is at least a doubling of net investment."²⁴ He estimated that about \$200 million to \$400 million of foreign capital was needed annually for that purpose.

Finally, distrust of colonialism and growing fear of foreigners have led the nationalist government to discourage new foreign capital. Foreign enterprises are rigidly regulated. Alien corporations and individuals are taxed at higher rates. Limits are placed on the number of foreign employees. Trading concessions are denied to foreigners, often at a net loss to the government. An embargo imposed on oil concessions in 1951 has cost the country well over \$100 million in revenue.

AMERICAN AID AND CRITICISM OF THE UNITED STATES

Official Indonesian attitudes have dampened American hopes of aiding the country, hopes which ran high in 1950 after the United States had supported Indonesian independence. Private American investment in Indonesia, generally estimated at about \$250 million, has not increased much during the economically unstable postwar period. In fact,

²³ Yale University, *Indonesia* (Subcontractor's Monograph for Human Relations Area Files, Inc., 1956), p. 887.

²⁴ Benjamin Higgins, *Indonesia's Economic Stabilization and Development* (1957), pp. 89-91.

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General Motors closed its Indonesian plant in 1955 and Standard-Vacuum Oil Co. cancelled exploration plans late in 1957.

Government aid and loans from the United States since 1949 have amounted to almost \$300 million. The assistance has been given primarily in agricultural surplus commodities and technical assistance. Aid exclusive of loans increased from \$7 million in fiscal 1955 and \$11 million in fiscal 1956 to \$26 million in fiscal 1957. The Soviet Union has granted Indonesia almost \$110 million in trade credits and promised ships and arms.

Although Indonesians resent what they regard as a tendency on the part of the United States to treat Indonesia chiefly in terms of cold war competition, the Sukarno government has not hesitated to make use of the threat of Soviet penetration of Indonesia when seeking to influence this country's course of action. American abstention from the U.N. General Assembly's vote on an Indonesian proposal for new negotiations on the future of Netherlands New Guinea, Nov. 29, 1957, caused Foreign Minister Subandrio to warn that "United States neutrality is driving my country into the arms of the Communists."²⁵ After Secretary Dulles suggested, Feb. 11, that the outer islands had "a feeling of concern in growing Communist influence in the government in Java," Subandrio reacted even more sharply. "It is not to the advantage of the United States," he said, "to get involved with domestic affairs in any Asian country since this may provoke other big powers to act in the same way."

²⁵ The vote of 41 to 29, with 11 abstentions, failed for lack of a two-thirds majority.

